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INTRODUCTION

The papers in this section examine East European economic inputs into defense (Deutch), trends in defense budgets (Alton), military outputs (Bielli), and intraregional patterns of military inputs and outputs (Nelson). They all chart (with the exception of some of Alton's indices), declines in Eastern Europe's contribution to the Warsaw Pact: arms industries are not being modernized, budgets are declining in real terms, procurement of new weapons systems has been slow, and East European military commitments continue to be far less than those of the Soviets, even accounting for differences in status and size.

This comment examines the decline of Eastern Europe's military commitment to the Warsaw Pact in the context of these papers. It first discusses how we know what we know, i.e., the sources of information on the economic side of East European military efforts. It then compares several indicators and what they imply about trends in military spending and force modernization. The paper proceeds to assess constraints on military modernization imposed by demographic, social, and economic trends in Eastern Europe and to suggest why East European governments have not tried to increase or sustain past levels of effort. The comment concludes with a discussion of the policies Western countries could adopt to influence East European government decisions on allocations to the military.

¹This comment was written for inclusion in *Pressures for Reform in the East European Economies*, Joint Economic Committee of Congress, Government Printing Office, Washington, D.C., forthcoming. It reviews the following papers in the compendium: Thad P. Alton, Gregor Lazarcik, Elizabeth M. Bass, Krzysztof Badach, "East European Defense Expenditures: 1975-1987;" James L. Bielli, "Trends in Non-Soviet Warsaw Pact Defense Procurement;" Shelley Deutch, "The Non-Soviet Warsaw Pact Defense Industries: An Overview;" and Daniel N. Nelson, "The Distribution of Military Effort in the Warsaw Pact."

MEASURES OF MILITARY INPUTS AND OUTPUTS

When Western defense analysts examine the East European militaries their primary concern is the threat these establishments pose for NATO forces. They attempt to determine the numbers and capabilities of Warsaw Pact forces, the morale and training levels of troops, and the tactics and doctrine of Warsaw Pact forces. The primary concern of economists who examine these militaries is: How much do these forces cost and what are the East Europeans purchasing with their military expenditures?

These papers incorporate three economic measures of military effort. The first are dollar estimates of the cost of replicating the East European militaries using U.S. factor costs. This method answers the question, "How much would it cost the United States to field forces identical to those fielded by the East Europeans?" They are constructed by valuing East European personnel, procurement, research and development, operating and maintenance, and other costs using U.S. prices. The resulting dollar estimates can be used to compare levels of effort across countries or to measure real increases in military spending (in U.S. prices), as Bielli does for military procurement and Alton for personnel. They provide a crude measure of what the East Europeans are doing relative to the United States and other countries.

A second measure is building block estimates in domestic currencies. Dollar cost estimates tell us nothing about the opportunity cost of the East European militaries to their domestic economies because East European and U.S. price systems are so different. For example, a large portion of dollar cost estimates is composed of personnel costs because East European armies are relatively large and U.S. salaries are relatively high. East European soldiers would not, however, earn anything close to U.S. salaries, if employed in the civilian economy. Their true opportunity cost is the wages they would earn in their own country, not what U.S. servicemen make. Alton's dollar estimates reflect these differences: personnel costs run up to 70 percent of his dollar cost estimates; in domestic prices they run 30 percent or less (except for Romania).

Building block estimates in domestic currencies are constructed in the same way dollar cost estimates are. Physical units such as tanks purchased, fuel consumed, or soldiers fielded are valued using domestic prices. The resulting total is the cost of the country's military in its own currency. These figures reflect the costs that East European policymakers must confront when putting together national budgets and economic plans. Although of little use to military planners, they provide a means to size the burden of military spending. They also make it possible to assess tradeoffs between increases in military spending and increases in alternative expenditures such as investment and social spending.

Clements provided building block estimates in domestic currencies in the last Joint Economic Committee volume.² He found expenditures by Eastern Europe increased at an average annual rate of 7 percent in nominal terms and 2 percent in real terms in the 1970s. Bielli notes that no current domestic building block estimates are available.

A third set of measures are the military expenditures reported by the East European statistical authorities. Alton notes that reported Soviet expenditures exclude major components of military spending such as military procurement and research and development and argues the East European budgets also probably understate actual spending. Clements finds reported expenditures were close, but not identical to his building block estimates; building block estimates averaged 15 percent more than the reported expenditures in the 1970s. Part of the discrepancy is due to differences in coverage. For example, military research and development probably is not covered out of the defense budgets.

Despite their flaws, the reported military budgets are the instruments used by East European leaders to channel resources to the military and make tradeoffs between military spending and other budget items. What little debate heard from Eastern Europe on the military

²Thomas W. Clements, "The Costs of Defense in the Warsaw Pact: A Historical Perspective," in Joint Economic Committee, *East European Economies: Slow Growth in the 1980s*, Vol. 1, Washington, D.C., 1985.



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generally focuses on the budget. In 1988 members of Hungary's Parliament called on the finance minister to defend the size of the budget. In Poland criticism of the military and debate over its role has also frequently centered on the budget.

A related measure is estimates of military expenditures constructed from residuals found in national income accounting and other economic data. Some of these reconstructions indicate that the reported budgets cover the major components of military spending: personnel, operations, and maintenance and procurement costs.³ On average Crane's reconstructions remained within 10 percent of the reported budgets.

Some of these measures are more reliable than others. The dollar building block estimates for procurement are based on intelligence counts of additions to East European armories. The prices used to value these weapons are estimated by U.S. manufacturers. Because the intelligence agencies need to make accurate counts of major, new weapons and because they have their own set of prices, one would expect the constant dollar series for military procurement to be quite reliable.

Building block estimates in domestic prices are also probably fairly reliable, although the prices employed for military equipment may be of variable quality.

As noted above, there is an appreciable amount of evidence indicating that military expenditures as reported by the East European governments cover the major components of military spending: personnel, operations and support, and procurement. Changes in the ratio of these budgets to net material product or utilized national income (UNI, the material goods available for consumption and investment), are probably good indicators of changes in the importance given defense.

Deflating these budgets is a more dubious proposition. For example, Alton's deflated dollar estimates of East German nonpersonnel costs increased 36 percent between 1980 and 1987; his estimates in constant Eastmarks show a decline of 11 percent for the same period. The choice of a deflator has an enormous effect on the result.

³Keith Crane, *Military Spending in Eastern Europe*, The RAND Corporation, Santa Monica, California, R-3444-USDP, May 1987.

DECLINES IN MILITARY SPENDING

Although none of these measures is perfect, used in conjunction with each other they indicate changes in the importance and priorities given the military. They show, with the exception of Alton's dollar estimates for the GDR, that in constant prices military spending in Eastern Europe generally stagnated or even declined in the 1980s.

Although nominal budget increases kept pace with reported inflation through much of the 1980s, cuts in military spending in real terms have been announced for 1988 and 1989. After some acrimonious debates in the Hungarian Parliament in 1987, the 1988 military budget emerged unscathed. However, a 17 percent reduction in military spending in real terms was announced for 1989; procurement is to be more than halved.⁴ The Polish government has also announced that military expenditures will be cut by 4 percent in real terms in 1989. The East Germans have also reduced increases in the military budget from over 6 percent per year between 1980 and 1987 to 3.4 percent for 1988 and 1989.

Other indicators also reflect stagnation. Military modernization programs have proceeded slowly (Bielli). Deutch notes that the East Europeans have starved parts of their armaments industries of investment. Personnel numbers have stagnated. Times have been tough for the East European militaries.

The slowdown in military modernization has been noticeable in the widening gaps between the capabilities of Soviet forces stationed in Eastern Europe and the national forces of the East European countries. As noted by Bielli, the Polish army continues to field large numbers of World War II-vintage towed artillery, none of which approaches Soviet standards of modern self-propelled artillery, an essential component of the armament needed for rapid maneuver. All the armies rely on the T-54/55 as their main battle tanks, although some are beginning to deploy the T-72. The T-54/55 is three generations behind the T-80, the Soviets' main battle tank; even the T-72 is a full generation behind the T-80. There is also a growing disparity between Soviet and non-Soviet Warsaw Pact air forces.

⁴"Karpati Speaks for Defense Ministry," Foreign Broadcast Information Service, FBIS-EEU-88-237, December 9, 1988, p. 24.

WHY ARE MILITARY EXPENDITURES BEING REDUCED?

All the East European countries have found the 1980s to be a decade of recession. Although Poland's depression was the most spectacular, with UNI declining by a quarter between 1978 and 1982, in the early 1980s UNI in Czechoslovakia, the GDR, and Hungary declined by 5, 4 and 6 percent, respectively, in comparison with the beginning of the decade. For some countries, most notably the GDR, Hungary, and Poland, the declines in UNI can be traced to problems in servicing their hard currency debt. Substantial increases in the price of Soviet oil also weighed heavily on all of Eastern Europe.

Eastern Europe has also paid a price for the rigidities of the economic systems. During the 1980s economic policymakers have made belated attempts to restructure their economies, but with little success. Czechoslovakia, a country little burdened by debt, has experienced its slowest growth rates since the end of World War II. Despite favorable economic conditions (declining prices of Soviet oil, a more manageable hard currency debt), growth in the GDR has been decelerating. Romania has almost succeeded in paying off its hard currency debt, but has experienced no concomitant upswing in domestic consumption.

Not surprisingly, economic hardship has affected the military. The East European military press has placed much greater emphasis on conserving fuel and equipment, to some extent at the expense of training. The military has also been encouraged to become more self-sufficient; at many posts soldiers grow some of their own food.

Demographic constraints in Hungary, Czechoslovakia, the GDR are also affecting the military. The GDR is confronting a shortage of up to 16,000 recruits in 1992: 10 percent of its current force levels.⁵ Hungary has recently begun to restructure its forces into brigades from divisions.⁶ This may have been caused in part by demographic constraints.

⁵Estimated from demographic projections by the Center for International Research, U.S. Department of Commerce, and force data from the *The Military Balance*, International Institute for Strategic Studies, London, 1987.

⁶*The Military Balance*, International Institute for Strategic Studies, London, 1988.

In the past the East Europeans have not bridled at increasing military spending, even in times of economic austerity. The GDR doubled military spending in five years during the 1960s. The Poles and Czechs increased spending while maintaining enormous investment drives during the early 1950s; consumers suffered the economic consequences. The current unwillingness to increase military spending is due to political factors.

The political rationales for reducing military spending are as diverse as the political systems of these countries. Romania, the country that appears to have reduced its military expenditures the most (Alton et al.), is run by Nicolae Ceaucescu, a die-hard Stalinist. Romania has reduced expenditures for economic reasons, but also because of Ceaucescu's policies of minimizing Romania's contribution to the Warsaw Pact. The Romanian armed forces now concentrate on territorial defense.

Hungary, which had been reducing expenditures in real terms during the 1980s, made its sharpest cuts in the 1989 budget. The Hungarian defense minister cites Hungary's economic problems as cause for the reductions, but he has also elaborated at length on the withdrawal of Soviet troops from Hungary. The Hungarians will not be replacing these forces with their own. The Soviet Union's willingness to reduce its own troops appears to have encouraged the Hungarians to do the same. The key factor in Hungary's reductions, however, has probably been the political liberalization that caught fire in 1988. The election of Rezso Nyers to the Politburo meant that a critic of the secrecy and size of past military expenditures was selected to the preeminent policymaking body. The reform current within the Hungarian Socialist Workers' Party and the addition of a host of new political organizations and parties outside it have created a strong constituency skeptical of the need for increased military spending. Their preferences have been reflected in the 1989 budget.

Pressures in Poland to reduce the government budget deficit have contributed to the decision to reduce the 1989 budget and consolidate forces. The Polish defense minister has announced that 15,000 soldiers

have been cut and older generation tanks, artillery, and airplanes withdrawn in the past two years.⁷ The GDR also appears to have decided to limit increases in its military budget for reasons of economy. Political pressures played a role: During an era of better East-West relations, support for the military has waned.

In the past Soviet policy has pushed the East Europeans to increase military spending, although without great success. As noted by Bielli, the East Europeans response to the 1978 Soviet demand for increased military spending was unenthusiastic. With the exception of the GDR and possibly Bulgaria, Soviet demands appear to have gone unfulfilled.

Gorbachev's speech to the United Nations has now created an entirely new situation. If he fulfills his promise to withdraw six divisions, 5,000 tanks and 50,000 men from Eastern Europe, pressures to reduce military forces in Eastern Europe will grow stronger. His January 18, 1989 announcement of a 14 percent reduction in Soviet military spending will make it extremely difficult for the East European militaries to lobby for increased expenditures. A major source of pressure for increased military spending has disappeared.

WESTERN POLICIES AND MILITARY SPENDING IN EASTERN EUROPE

For economic and security reasons, Western policymakers have a strong interest in the decline in East European military expenditures. What can policymakers do to encourage such a trend?

Western policymakers can probably have the greatest impact on East European military expenditure decisions by providing information. By informing East European publics and policy makers about NATO, U.S., and *Soviet* military doctrines, procurement policies, and their rationales, East European publics and elites will be better able to conduct informed policy debates on optimal levels of military spending. The current lack of information about military budgets, even among East European policymakers, is so great that informed debates even in the parliaments are almost impossible.⁸ Dissemination could occur at both the elite

⁷"Siwicki Interviewed on Changes in Army," FBIS-EEU-89-002, January 4, 1989, p. 36.

⁸Hungarian parliamentarians were given 15 minutes to review the recent defense budget before they were asked to approve it.

level through foreign ministry and, possibly, defense ministry visits and at the mass level through Western radio broadcasts to Eastern Europe.

Western policymakers could also influence the East European policy debate by voicing their concern over the size and opacity of the East European budgets. As conventional arms control talks begin, it would behoove Western policymakers to argue for the release of information on the composition of East European military expenditures, as well as the composition of the armed forces. This information would help flag changes in emphasis on training and procurement that would otherwise be missed. It would also help build confidence and increase the credibility of Warsaw Pact arms control proposals and the probability that a treaty will be signed.